

Executive Summary

The State of Working New York 2007:

Encouraging Recent Gains But Troubling Long-Term Trends

A modest improvement in wages and income

After four years of reasonably strong economic growth, working New Yorkers are finally beginning to see modest benefits from New York's expanding economy. In 2006, hourly wages and median income both increased slightly. For median hourly wages, this was the first increase since the 2001-to-2003 downturn. At the same time, job growth increased, and the poverty rate declined to 14 percent from 15 percent in 2004.

One of the main reasons for the increase in earnings among low-wage workers is the state's new \$7.15/hour minimum wage. New York's minimum wage was raised in three stages since January of 2005. Despite dire predictions by opponents, the number of jobs increased together with higher pay for employees.

And, in a welcome development, recent growth has touched all parts of the state. The upstate economy west of the Hudson Valley has generally lagged behind the rest of the state in the past decade, but is now showing some hopeful signs. Between 2004 and 2006, most upstate metropolitan areas rose in national rankings of per capita income growth. Led by the Buffalo metropolitan area, payroll job growth in Western and Northern New York was 0.8 percent for the 12 months ending this past July, nearly matching the job growth of Eastern New York, which includes the New York City suburbs and the Hudson Valley. This was the best relative job growth for Western and Northern New York in over a decade. Since the early 1990s, real median hourly wages have increased more in upstate than in New York City and its suburbs.

Troubling long-term trends

These positive developments are set against some significant concerns about long-term trends in the New York economy.

- *The wage/productivity gap.* While wages and incomes finally inched up in 2006, there is still a significant gap between wages and productivity in today's economy. During the 1990s, wages and productivity grew in tandem—when productivity increased, wages grew by a similar degree. Since 2000, however, productivity has grown by a strong 1.8 percent a year, while total wage growth has averaged less than 0.2 percent a year. As a result, although median hourly wages in New York rose by 1.7 percent in 2006, median hourly wages are still not back to their 2002 peak, and wage gains have disproportionately benefited those at the high end of the pay scale.

- *Same job, less security, fewer benefits.* An increasing number of businesses are using independent contractors in place of employees, resulting in a deterioration of working conditions and a strain on social insurance systems. "Employees" get a range of benefits long taken for granted and essential to middle-class economic security—benefits such as overtime pay, sick leave, employer co-payment of Social Security, and coverage by workers compensation and unemployment insurance. "Independent contractors" get none of the above. This increase in employee misclassification—affecting nearly 10 percent of all private workers in New York—is part of a broader trend of unregulated work and employer noncompliance with labor laws.

- *Economic polarization.* Census data for 2006 confirm that New York has the widest income gap between the rich and the poor (and the widest income gap between the rich and the middle) of all fifty states. Moreover, the Census data, which show that the top five percent of households receive 25 percent of all income in New York, may understate the real picture. Based on more definitive income tax data, the State Division of the Budget projects that the wealthiest five percent will account for nearly twice that share (46 percent) of total income in 2007. New York has the dubious distinction

of having both high per capita income and high poverty. Poverty rates in the upstate cities are around 30 percent, much higher than the state overall.

- *Volatility and imbalance in the economy.* Despite the economic expansion, there are still far fewer jobs today in finance, information, and computer services than in 2000. Manufacturing, central to the health of the upstate economy, continues to lose jobs, and now employs one-third fewer New Yorkers than a decade ago. Recent instability on Wall Street and the emergence of various caution signs indicate that the middle months of 2007 could be a cyclical high point. If that turns out to be the case, New York's recent wage and income gains could be short-lived. Racial and ethnic disparities persist; for example, black male unemployment was 9.3 percent in 2006, versus 4.4 percent for the general population.

- *Getting a job isn't enough to lift families out of poverty.* Despite recent wage gains and the reduction in poverty, the number of working families who are poor or near poor is much higher than it was in 1990. Today, poor people are more likely to have a job than fifteen years ago. However, since so many jobs pay very low wages, having a job is no assurance of a decent standard of living. The percentage of people in working families who are poor, as defined by the federal poverty standard, has risen from six percent in 1990 to ten percent in 2005. Some 800,000 New Yorkers are living in poor families, including 450,000 children. A third of all children in working families in New York State (nearly half, 47 percent, of those in New York City) live in families with incomes less than twice the poverty level.

Potential for sustained and broadly shared growth

New York's trillion-dollar economy has substantial potential as a dynamic, innovative, internationally ori-

ented economy that richly rewards all New Yorkers. New York's workforce is highly diverse in terms of its racial and ethnic composition and it has one of the largest and most varied immigrant populations among the states. New York has a significant productivity edge over the national average and is the most productive among large states with diverse economies. This productivity edge is broadly based across two thirds of industries. The state's many colleges, universities, and research facilities give it a solid technological infrastructure. New York ranks high among states for its efficient natural resource use.

Recent gains in upstate areas are encouraging. But improving the fortunes of upstate cities relies heavily on reversing the misguided state fiscal policies and suburban sprawl that have drained jobs from cities and pushed up urban poverty and property taxes to unacceptable levels.

And the success of the increased minimum wage in helping to push up earnings for low-wage workers shows the difference that a strong floor in the labor market can make. Further improvements in minimum standards for the labor market—such as strong enforcement of labor laws, expansion of training opportunities, or English language programs for immigrants—could build on this positive recent experience.

While New York is well positioned to develop more technologically oriented jobs, occupational projections for the next decade suggest that New York also needs a strategy to raise the skill requirements and increase the pay for the large majority of jobs that will not require a college degree. Individual workers are more likely to succeed if they get a college education but education alone is not sufficient if the quality of jobs does not improve. Better jobs go hand in hand with a better-educated workforce.